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SUBJECT: SPAIN INCREASES MINIMUM WAGE MIDYEAR

1. The Spanish Council of Ministers approved June 26 a 6.6% increase in the minimum wage to EUR 490.80 (USD 599.34) from EUR 460.50 (USD 562.40) per month. The new wage will be effective July 1. This increase will affect 600,000 workers. The increase in cost to the Spanish government is predicted to be EUR 252 million (USD 307 million) per year due to increased government salaries and unemployment benefits. Even with the increase, Spain will continue to have the second lowest minimum wage of EU-15 countries, followed by Portugal.

2. While the minimum wage is usually set annually in the national budget bill, the Socialist government decided to increase the wage mid-year to return the minimum wage to parity with the inflation rate. The minimum wage has risen 2% per year since 2000. The consumer price index has risen faster than the minimum every year since 1999, resulting in a de facto 6% decline in the minimum wage. The 6.6% increase will be the first increase in the real minimum wage since 1999.

3. The Council of Ministers' decision was made by Royal Decree (equivalent to an Executive Order), and was not discussed in the legislature. It is a temporary measure until the government introduces legislation to change the many related laws. The Socialist administration publicly reaffirmed its commitment to raise the minimum wage to EUR 600 (USD 732) per month by 2008, prior to the next election.

4. The Royal Decree also decoupled the link between the minimum wage and certain social benefits. Previously the minimum wage was used as the base figure for computing several types of public benefits including scholarships, schoolbook subsidies, food assistance and access to public housing. These services will now be linked to a new figure, IPREM (Indicador Publico de Rentas de Efectos Multiples), which will be set at the old minimum wage of EUR 460.50 (USD 562.40) per month, and will continue to be set each year in the national budget bill, based on projected inflation rather than real inflation rates. Unemployment benefits will continue to track with the minimum wage.

5. Comment. The EUR 30 (USD 36.6) per month increase in the minimum wage allows the Socialist government to show that it is keeping up with some of its campaign promises in pragmatic fashion. The GOS can claim that they are moving towards the EUR 600 (USD 732) per month promise incrementally, and the delinking of the minimum wage with benefits prevents the change from being too costly.

ARGYROS